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RUEHLH/AMCONSUL LAHORE 7419
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RUEAIIA/CIA WASHINGTON DC
RUCPDOG/DEPT OF COMMERCE WASHINGTON DC
RUEHRC/DEPT OF AGRICULTURE WASHINGTON DC
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SUBJ: PAKISTAN ECONOMIC REPORT, MAY 7 - MAY 20

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11. (SBU) Pakistan featured the following economic news over the last two weeks:

- * Federal Board of Revenue gets new Chairman.
- * Supreme Court directs government to reduce oil prices
- * Reduced imports shrink Pakistan's trade deficit
- * Karachi Stock Market unchanged
- * Lahore Stock Exchange up
- * Traders' strike closes Islamabad shops on May 11
- * Water outflow from Tarbela Dam exceeds its inflow
- * Load shedding wreaks havoc on manufacturing in Lahore
- * Robust wheat harvest increase government's purchase targets

TOP ECONOMIC STORIES

12. (SBU) Federal Board of Revenue gets new Chairman. Retiring Chairman of the Federal Board of Revenue, Ahmad Waqar, was replaced May 18 by Sohail Ahmed, who was previously an Additional Secretary at the Ministry of Finance for a short time, and held various positions in the Punjab provincial government prior to that. Comment: Normally the Chairman of the FBR also serves as Secretary, Revenue Division, but Ahmed, who is fairly junior, will not hold the latter position, according to an FBR official. Finance Ministry sources speculate that Ahmad might have a PPP connection because he was posted in the Finance Ministry for only a week before his appointment as Chairman FBR. Finance Advisor Shaukat Tarin has referred to Ahmed's appointment as a sign of his seriousness about improving revenue collection, which has not met the GOP's expectations this fiscal year.

13. (SBU) Supreme Court directs government to reduce oil prices. On May 13, the Supreme Court directed the government to pass on lower international petroleum prices to domestic users, warning that failure to comply would compel the courts to intervene further. The Business Recorder reported that Chief Justice Chaudhry directed the Attorney General to seek instructions from the government regarding reduction in prices of petroleum products for the people of the country. Comment: In view of Pakistan's small tax base, the GOP has depended on its Petroleum Development Levy as a significant source of revenue. Collections this fiscal year are expected to top Rs. 100 billion. It is expected that the GOP will lower prices by about 10 percent in response to the high court's directive, but it is unclear whether the Finance Ministry will comply before the end

of the fiscal year June 30.

¶4. (SBU) Reduced imports shrink Pakistan's trade deficit. Pakistan's trade deficit fell from \$16.8 billion to \$14.1 billion from April 2008 to April 2009 primarily due to a significant drop in imports. Exports fell slightly as well. The Business Recorder opined that this situation should be a wake-up call to senior government officials, who had predicted earlier that exports would increase by 10 percent in spite of the present economic situation. Comment: The trade deficit has decreased by 15.9 percent due to a 9.7 percent decline in imports, not because of an increase in exports. On the contrary, exports dropped by over 3 percent between July 2008 and April 2009. The fall in exports reflects the effects of energy shortages, high cost of borrowing and the global financial crisis, which has impacted demand.

BANKING AND FINANCE

¶5. (SBU) Karachi Stock Market unchanged. The Karachi Stock Exchange (KSE) - 100 Index ended the week of May 15 at 7,177.64, up just 48.13 points over the previous week. Market capitalization increased slightly from \$26.41 billion to \$26.46 billion. Net foreign portfolio investment continued its decline with an outflow of \$11.0 million. The banking, energy, fertilizer and cement sectors continue to be among the top performers. Comment: Post contacts at the Karachi Stock Exchange said the continued portfolio outflows highlight continuing institutional investor concerns regarding the law and order situation.

¶6. (SBU) The Lahore Stock Exchange (LSE) 25 index was up, climbing 3.4 percent over the last two weeks, buoyed by successful military action against the Taliban and relative calm in Balochistan and

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Karachi. Transaction counts were average, and there were an equal number of winners and losers.

¶7. (SBU) Traders' strike closes Islamabad shops on May 11. The Traders' Action Committee Islamabad called for a "shutter down" on May 11 to protest the arrest of 43 of its members for their involvement in disturbance in the city court, sparked by a controversial eviction notice. The Nation reported that in Islamabad "not a single shop" was open, greatly inconveniencing residents. Comment: While most shops in Islamabad were closed early in the day, many out of fear of retaliation by the Committee, by evening the majority had reopened. The Secretary General of the Traders Action Committee told Post that the absence of rent laws had hurt business. Although disturbing court proceedings can be punished by up to two years in prison, the judge held the protestors for only 48 hours, so the action fizzled quickly.

ENERGY, POWER AND WATER

¶8. (SBU) Water and Power Development Authority (WAPDA) data show that outflows from Tarbela Dam have exceeded inflows since April 25. The reservoir has dropped more than 20 feet in three weeks to 1,392 feet on May 14, just 23 feet above Tarbela's dead level. On May 10, Lahore Electric Supply Company (LESCO) officials said they expected load shedding (rolling blackouts) to ease next month as reservoirs filled. Their hopes will be dashed if Tarbela's water level continues to drop.

¶9. (SBU) Varying estimates of power supplies and demand resulted in unscheduled load shedding in Lahore, wreaking havoc on manufacturing, according to press reports. Several business leaders told Lahore Econoff that unscheduled load shedding is crippling small and medium sized enterprises, especially in the textile industry. They added that even regularly scheduled load shedding has dramatically increased the cost of production for larger industrial units that run their own generators, making their products less competitive.

AGRICULTURE

¶10. (SBU) The Punjab Food Department and the Pakistan Agricultural Storage and Services Corporation (PASSCO) expanded their response to the robust wheat harvest by increasing their purchase targets to a total of 8 million metric tons (MMT). South Asia Partnership-Pakistan, a development and human rights NGO, claimed that a survey covering 168 villages indicated that Punjab growers may have as much as 10 MMT of wheat available for sale. Punjab Chief Minister Shahbaz Sharif told Lahore Principal Officer May 2 that the province had adequate facilities for wheat storage (see Lahore 087), but three days later the press reported that the Food Department was renting private warehouses to supplement government holding capacity for the duration of the buying season.

TAXATION

¶11. (SBU) Lahore-based officials of the Federal Board of Revenue (FBR) made headlines with dramatic tax enforcement actions. The Business Recorder said FBR Lahore would recover some Rs 60 million from three businesses as a result of their on-going crackdown on tax evasion. Additional investigations are under way. Members of the American Business Council told Principal Officer on May 13 that they while they insist that their members pay all taxes, they felt that many non-U.S. brands routinely dodged taxes. The leadership of the Pakistan Industrial and Traders Association Front told Lahore Econoff May 5 that its members were willing to pay taxes, but the government should also broaden its tax base to include services and agriculture.

DEVELOPMENT

¶12. (SBU) Punjab Chief Minister Shahbaz Sharif said May 4 that the "teeming millions" who believe that Pakistani elites are fleecing the country at the expense of the lower classes are perhaps "not

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very far from the truth." The statement was part of his remarks to the second meeting of the National Policy Platform for Competitiveness and Economic Growth (NPPCEG), a project co-sponsored by USAID and the Ministry of Finance. He called textiles Pakistan's "most important link to industrialization" and argued that Punjab agriculture was full of "missed opportunities." He added that his vision for Pakistan includes small and medium sized enterprises integrated in the global subcontracting and supply chain.

¶13. (SBU) Investment in Port Qasim. The Daily Times reported that a second container terminal at Port Qasim Authority will be completed in 2010 with the help of Dubai Port World, at an estimated cost of \$250 million. According to the Ministry of Ports and Shipping, the government's port modernization plan includes coal clinker/cement terminal, a liquids terminal, and liquified natural gas terminal. The projects total over \$1 billion, and will increase the port's capacity by 20 million tons. Comment: A description of the projects can be found at <http://www.portqasim.org.pk>.